

**LOS ANGELES - SAN DIEGO SAN LUIS O ISPO  
RAIL CORR DOR AGENCY**

**Basic Financial Statements**

**Year Ended June 30, 2019**

**(With Independent Auditor's Report Thereon)**

LOS ANGELES - SAN DIEGO SAN LUIS O ISPO  
RAIL CORRIDOR AGENCY

Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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**Los Angeles - San Diego - San Luis Obispo Rail Corridor Agency  
Management's Discussion and Analysis  
(unaudited)  
For the Fiscal Year Ended June 30, 2019**

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**Introduction**

The following discussion and analysis of the financial performance and activity of the Los Angeles - San Diego - San Luis Obispo (LOSSAN) Rail Corridor Agency (Agency) provides an introduction and understanding of the basic financial statements of the LOSSAN Agency for the year ended June 30, 2019. This discussion was prepared by management. We encourage readers to consider the information of financial performance presented in conjunction with the financial statements that begin on page 11.

**The Basic Financial Statements**

The basic financial statements provide information about the LOSSAN Agency's enterprise fund. The financial statements are prepared accordance with accounting principles generally accepted in the United States of America, as promulgated by the Governmental Accounting Standards Board (GASB).

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the LOSSAN Agency's financial statements. The financial statements are comprised of two components: 1) the financial statements and 2) the notes to the financial statements.

The statement of net position presents information on all assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the LOSSAN Agency is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the LOSSAN Agency's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of cash flows presents information using the direct method and include a reconciliation of cash to the statement of net position. The financial statements can be found on pages 11-13 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 14-22 of this report.

**Statements of Net Position**

As noted previously, net position may serve over time as a useful indicator of the LOSSAN Agency's financial position. At June 30, 2019, the LOSSAN Agency's net position was \$412,403, a decrease of \$199,234 from June 30, 2018.

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The analysis below focuses on net position (Table 1) and changes in net position (Table 2, page 6) of the LOSSAN Agency’s financial activities.

Table 1  
LOSSAN Rail Corridor Agency  
Net Position

	2019	2018	Difference Increase (Decrease)	% Increase (Decrease)
<b>Assets:</b>				
Current assets	\$ 22,175,889	\$ 26,131,832	\$ (3,955,943)	-15.1%
Restricted assets	7,925,535	7,245,462	680,073	9.4%
<b>Total assets</b>	<b>30,101,424</b>	<b>33,377,294</b>	<b>(3,275,870)</b>	<b>-9.8%</b>
<b>Liabilities:</b>				
Current liabilities	29,689,021	33,164,125	(3,475,104)	-10.5%
<b>Total liabilities</b>	<b>29,689,021</b>	<b>33,164,125</b>	<b>(3,475,104)</b>	<b>-10.5%</b>
<b>Net position</b>				
Unrestricted	412,403	213,169	199,234	93.5%
<b>Total net position</b>	<b>\$ 412,403</b>	<b>\$ 213,169</b>	<b>\$ 199,234</b>	<b>93.5%</b>

In fiscal year 2019, total assets decreased by \$3,275,870, primarily due to a decrease in cash and receivables. Cash decreased by \$2,558,257 primarily due to an increase in payments to Amtrak due to higher than anticipated operating costs. Receivables decreased by \$638,444 due from other governments, primarily due to receiving train operations and administrative services funding prior to the end of the fiscal year compared to fiscal year 2018 in which the receivables were outstanding.

Total liabilities decreased by \$3,475,104 primarily due to a decrease in unearned revenue, partially offset by an increase in accounts payable, amount due to Union Pacific, and due to other governments. Unearned revenue decreased by \$18,536,606, primarily due to an increase in recognition of prior year unearned revenue to offset fiscal year 2019 train operating expenses. This is offset by a decrease in accounts payable of \$4,137,487, an increase in amount due to Union Pacific of \$8,500,000, and due to other governments of \$2,424,015. The increase in accounts payable is primarily due to amounts due to Amtrak for train operations, as well as amounts owed to various other vendors for advertising and marketing June services. The increase in amount due to Union Pacific is due to an amount owed for host railroad improvements related to positive train control. The increase in amount due to other governments is primarily due to an amount owed to the North County Transit District for on-time performance and track maintenance, as well as administrative fees owed to the Orange County Transportation Authority.

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Restricted assets represent cash received from CalOES and SRA grants, which is restricted for use on corridor-wide station safety and improvement projects.

Unrestricted net position represents the portion of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. Unrestricted net position changed from \$213,169 at June 30, 2018 to \$412,403 at June 30, 2019. This increase of \$199,234 was primarily due to interest revenue earned.

The analysis on changes in net position of the LOSSAN Agency's financial activities can be found in Table 2 on the next page.

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The analysis in Table 2 below focuses on the changes in net position. Table 2

LOSSAN Rail Corridor Agency

Changes in Net Position

	2019	2018	Difference Increase (Decrease)	% Increase (Decrease)
Operating revenues:				
Assessments	\$ 200,100	\$ -	\$ 200,100	/A
Fare reimbursements	382,192	-	382,192	/A
Total operating revenues	582,292	-	582,292	/A
Operating expenses:				
Contracted services for train operations	\$ 32,492,636	\$ 23,416,027	\$ 9,076,609	38.8%
Administrative fees	2,742,001	2,557,355	184,646	7.2%
Market services	2,760,356	2,022,670	737,686	36.5%
Other administrative expenses	254,449	169,490	84,959	50.1%
Total operating expenses	38,249,442	28,165,542	10,083,900	35.8%
Operating income (loss)	(37,667,150)	(28,165,542)	(9,501,608)	33.7%
Non-operating revenues (expenses):			-	/A
State funding for train operations	30,438,751	23,416,027	7,022,724	30.0%
State funding for administrative market	5,756,806	4,749,515	1,007,291	21.2%
Contributions from other Agency for train operations	1,471,593	-	1,471,593	/A
State funding for railroad improvements	8,500,000	-	8,500,000	/A
Contributions for railroad improvements	(8,500,000)	-	(8,500,000)	/A
State funding for major projects facility enhancements	-	11	(11)	-100.0%
Major projects facility enhancement expenses	-	(11)	11	-100.0%
Grants for transit programs and projects	3,736,377	121,795	3,614,582	2967.8%
Grant expenses for transit programs and projects	(3,720,015)	(129,424)	(3,590,591)	2774.3%
Other miscellaneous revenue	715	3,500	(2,785)	-79.6%
Investment income	182,157	11,791	170,366	1444.9%
Total non-operating revenues (expenses)	37,866,384	28,173,204	9,693,180	34.4%
Changes in net position	199,234	7,662	191,572	2500.3%
Total net position – beginning	213,169	205,507	7,662	3.7%
Total net position – ending	\$ 412,403	\$ 213,169	\$ 199,234	93.5%

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The LOSSAN Agency’s operating expenses consist of net Amtrak charges for train operations and bus feeder services, marketing and administrative expenses and other expenses. Operating expenses are partially funded by operating revenue that includes assessments charged to Amtrak for the performance of train operations, and fare subsidies provided by the Santa Barbara County Association of Governments. The majority of operating expenses are funded from funds received from Caltrans DRMT. This fund is reported as nonoperating revenue under State funding for a marketing and State funding for train operations. The LOSSAN Agency’s net nonoperating revenues increased by \$9,693,180 due to funds received from Caltrans DRMT for train operations, funds received for railroad improvements needed for the implementation of positive train control, administrative and marketing funding, as well as recognizing prior year unearned revenue to offset train operations. Total operating expenses increased by \$10,083,900 due to the cost for train operations, as well as administrative and marketing expenses.

**Budgetary Highlights**

Revenues

The primary sources of revenue for the LOSSAN Agency are from Caltrans DRMT. In fiscal year 2018-19, the original budget was \$51,568,286. This includes \$35,993,957 revenue to fund the operations of train and bus feeder services. It also includes \$6,170,129 administrative and marketing funding, \$8,900,000 grant funds, \$500,000 for minor projects and \$4,200 interest revenue. A budget amendment was completed which adjusted the total original revenue budget from \$51,568,286 up to \$62,499,565. The budget amendment was completed in order to align the original budget with the annual Amtrak financial forecast and incorporate funding for additional round trips and corridor improvement projects.

Actual revenues were lower than the final budget by \$13,114,377. This is primarily due to budgeted funds from the State for additional round trips were not received (\$8 million) due to the additional round trips not being implemented in FY 2018-19, as well as lower than anticipated activity associated with grant programs (\$6.6 million). This is offset by an increase in unearned revenue related to administrative funds of \$1.4 million.

Expenses

The original expense budget for fiscal year 2018-19 was \$51,568,286 and consisted of \$35,993,957 for payments to Amtrak for train operations and bus feeder services, \$6,174,329 administrative and marketing expenses, \$8,900,000 grant expenses, and \$500,000 for minor projects. A budget amendment was completed which adjusted the total original expense budget from \$51,568,286 up to \$62,499,565. The budget amendment was completed in order to align the original budget with the annual Amtrak financial forecast and incorporate funding for additional round trips and corridor improvement projects.

Actual expenses were lower than the final budget by \$9,194,490. The amended budget for train operations of \$45,166,461 included funding capacity to implement additional round trips from San Diego to San Luis Obispo (\$8 million), which were not implemented during fiscal year 2019. This is partially offset by net train operating costs coming in higher than forecast by approximately \$4.8 million.

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areas of car and locomotive maintenance, fuel, and station costs. Grant expenses were lower than budgeted by approximately \$3.7 million due to lower than anticipated activity with the corridor and SRA-funded projects, CalOES funded station improvements, and transit transfer program expenses. State funded minor projects came under budget by \$500,000 as no projects that qualified for these funds were completed during the fiscal year. Administrative expenses under the budget by approximately \$1.3 million during the year primarily due to position vacancies.

**Economic and Other Factors**

Funding for the LOSSAN Agency for administration, marketing, train and bus feeder operations is provided by Caltrans DRMT. This funding is subject to annual budget appropriation by the State Legislature, and to the extent required, programmed by the California Transportation Commission to carry out the purposes of the interagency transfer agreement (ITA) between the LOSSAN Agency and Caltrans.

The LOSSAN Agency has historically negotiated and entered into annual agreements with Amtrak to provide Pacific Surfliner tertiary passenger rail service and connecting bus feeder services for the LOSSAN Rail Corridor. A two-year agreement was entered into on October 1, 2017, with a term from October 1, 2017 through September 30, 2019. Following the end of term, the agreement allows the continuation of service up to six months or until a new annual agreement is executed. A new agreement is expected to be entered into in FY 2019-20 that covers October 1, 2019 through September 30, 2020.

Per the ITA and the LOSSAN Joint Powers Agreement, the LOSSAN Agency must develop an annual business plan to be approved by the LOSSAN Agency Board and submitted to the Secretary of the California State Transportation Agency (CalSTA) by April 1 of each year. The business plan is a two-year plan, operations, and budget outcome that outlines operations and service goals for the Pacific Surfliner service. The Board approved the business plan for fiscal years 2019-20 and 2020-21, including a draft budget for fiscal year 2019-20, on March 18, 2018. On June 17, 2019, the Board amended the business plan for fiscal years 2019-20 and 2020-21 to reflect a revised budget order to incorporate Amtrak’s operations revenue and expense forecast and other adjustments. The revised business plan for fiscal year 2019-20, including the amended budget for fiscal year 2019-20 was submitted to CalSTA on June 28, 2019.

The LOSSAN Agency’s fiscal year 2019-20 amended budget includes \$31,678,283 for net Amtrak operations, including \$160,000 for transit connectivity and integration programs. The budget includes \$8,772,548 for administrative and marketing funds (including the use of \$1,450,000 in Board authorized marketing surplus funds) and \$500,000 for minor projects. The budget also includes \$1,400,000 transit and tertiary rail capital program (TIRCP) grant funds to continue the transit transfer program, \$4,367,000 TIRCP funds for host railroad on-time performance and track maintenance, \$1,200,000 for station security upgrades funded by the California Office of Emergency Services, as well as \$5,100,000 state rail assistance funds for various corridor improvement projects.



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Beginning in June 2016, the LOSSAN Agency initiated a Pacific Surfliner Transit Transfer Program (Program) on a one-year pilot basis and has since continued the program. The Program allows Pacific Surfliner passengers to transfer to connecting transit services by presenting a valid Pacific Surfliner ticket. The program is funded by a Transit and Intercity Rail Capital Program (TIRCP) grant awarded by the California State Transportation Agency. The California Transportation Commission (CTC) approved the allocation of \$1,675,000 for this pilot program.

The LOSSAN Agency was awarded a total of \$7.2 million grants from the California Office of Emergency Services (CalOES) for security and safety enhancements for rail facilities. These funds were received during fiscal years 2017 and 2018.

During fiscal year 2015-16, the LOSSAN Agency was awarded \$82 million TIRCP grant funds to advance several improvement projects on the LOSSAN rail corridor, including the replacement of five railway bridges, construction of additional double track, station and safety enhancements, signal and switch upgrades, planning studies to improve coordination between all trains operating on the corridor, as well as funds for leasing rail equipment.

During fiscal year 2017-18, the LOSSAN Agency was awarded \$188.3 million TIRCP grant funds to advance capital improvements and planning studies on both the northern and southern ends of the LOSSAN rail corridor. These grant funds are provided through Senate Bill 1 (SB 1), the Road Repair and Accountability Act of 2017, and proceeds from the State’s Capital Transportation program.

During fiscal year 2017-18 and 2018-19, the LOSSAN Agency was awarded \$2.7 million of State Rail Assistance (SRA) funds. Funding for this program comes from SB 1. The program funds will be used to improve rail service along the LOSSAN corridor, and includes projects for the San Luis Obispo platform repair, replacement of station signs, update of the LOSSAN Corridor strategic plan, corridor optimization software, station safety improvements and an interregional connectivity improvement project.

In March of 2019, CalSTA awarded the LOSSAN Agency \$3,917,074 of SRA funds to complete station safety, security and facility improvement projects. An additional \$718,750 was awarded in May 2019 for a corridor integrated signage and wayfinding program.

During fiscal year 2018-19, the California Transportation Commission approved \$3,500,000 of State Transportation Improvement Program (STIP) funds to advance the Central Coast Layover Facility Expansion project through the project approval and environmental documents phase. Further details on grants can be found in the notes to the financial statements.

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**Contacting the LOSSAN Agency's Management**

This financial report is designed to provide the LOSSAN Agency's Board of Directors, management, creditors, legislative and oversight agencies, citizens and customers with an overview of the Agency's finances and to demonstrate its accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the LOSSAN Agency, at the Orange County Transportation Authority, 550 South Main Street, P.O. Box 14184, Orange, California 92863-1584.

**LOS ANGELES - SAN DIEGO - SAN LUIS OBISPO  
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**Statement of Net Position  
June 30, 2019**

**Assets:**

Current Assets

Cash and cash equivalents	\$ 17,036,824
Restricted cash and cash equivalents	7,925,535
Prepaid expense	72,500
Receivables:	
Due from other governments	5,010,665
Other receivables - National Railroad Passenger Corporation	55,900

<b>Total Assets</b>	30,101,424
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**Liabilities:**

Current Liabilities

Accounts payable	4,616,020
Amount due to Union Pacific	8,500,000
Due to other government	3,012,263
Unearned revenue	13,560,738

<b>Total liabilities</b>	29,689,021
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**Net position:**

Unrestricted	412,403
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<b>Total net position</b>	\$ 412,403
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See accompanying note to the financial statements.

**LOS ANGELES - SAN DIEGO - SAN LUIS OBISPO  
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**Statement of Revenue, Expenses and Changes in Net Position**

**Year Ended June 30, 201**

<b>Operating Revenue :</b>	
Assessment revenue	\$ 10
Fare reimbursements	38 19
<b>Total Operating Revenue</b>	58 9
<b>Operating Expense :</b>	
Contracted services for train operations and bus feeder services	3 49 636
Administrative fees and other expenses	996,45
Marketing services	76 356
<b>Total Operating Expense</b>	38 49,442
<b>Operating Loss</b>	(37,667,150)
<b>Nonoperating revenues (expenses)</b>	
State funding for train operations	30,438,751
State funding for administration and marketing	5,756,806
Contributions from other Agency for train operations	1 471 593
State funding for railroad improvements	8 5
Contributions for railroad improvements	(8,50 )
Grants for transit programs and projects	3 736 377
Grant expenses for transit programs and projects	(3,72 015)
Miscellaneous revenue	715
Interest income	18 157
<b>Total nonoperating revenues (expense)</b>	37,866,384
<b>Change in net position</b>	199,234
Net position, beginning of year	13 169
<b>Net position, end of year</b>	\$ 41 403

See accompanying notes to the financial statements.

**LOS ANGELES - SAN DIEGO - SAN LUIS OBISPO  
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**Statement of Cash Flows**

**Year Ended June 30, 2019**

<b>cash flows from operating activities</b>	
Payments for train operations and bus feeder services	\$ (30,002,124)
Payments for marketing and administrative services	(5,291,548)
<b>Net cash used in operating activities</b>	<u>(35,293,672)</u>
<b>cash flows from noncapital related financing activities</b>	
Receipts from State for train operations and bus feeder services	15,642,888
Receipts from State for marketing and administrative services	7,362,260
Receipts from State for railroad improvements	8,433,777
Receipts grant programs	761,615
Payments for grant expenses	(157,282)
<b>Net cash provided by noncapital financing activities</b>	<u>32,553,258</u>
<b>cash flows from investing activities</b>	
Interest received on investments	182,157
<b>Net cash provided by investing activities</b>	<u>182,157</u>
<b>Net increase in cash and cash equivalents</b>	(2,558,257)
Cash and cash equivalents at beginning of year	27,520,616
<b>Cash and cash equivalents at end of year</b>	<u>\$ 24,962,359</u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	(37,667,150)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in due from other governments	(382,192)
(Increase) decrease in other receivables	(55,900)
(Increase) decrease in prepaid assets	112,325
Increase (decrease) in accounts payables	2,605,187
Increase (decrease) in due to other governments	4,058
<b>Net cash used in operating activities</b>	<u>\$ (35,293,672)</u>

See accompanying notes to the financial statements.

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**1. Reporting Entity**

The Los Angeles – San Diego – San Luis Obispo (LOSSAN) Rail Corridor Agency (Agency) is a joint powers authority originally formed in 1989 that works to increase ridership, revenue, capacity, reliability, coordination and safety on the 351 mile coastal rail line between San Diego, Los Angeles and San Luis Obispo, California. The Agency consists of eleven member agencies which include the Los Angeles County Metropolitan Transportation Authority, North County Transit District, San Luis Obispo Council of Governments, Santa Barbara County Association of Governments, Ventura County Transportation Commission, Orange County Transportation Authority, Riverside County Transportation Commission, San Diego Metropolitan Transit System and San Diego Association of Governments. The governing board of the Agency is comprised of eleven voting members representing the member agencies, as well as four non-voting, ex-officio members representing Amtrak, California Department of Transportation (Caltrans) Division of Rail and Mass Transit (DRMT), California High Speed Rail and Southern California Association of Governments.

On September 29, 2012, Governor Jerry Brown signed SB1225 which authorized the LOSSAN Agency to oversee the state-supported intercity passenger rail service, commonly referred to as the Pacific Surfliner, subject to approval of an interagency transfer agreement (ITA) with the State of California. The ITA commenced on July 1, 2015 along with the transition of administrative responsibility for the Pacific Surfliner service to the LOSSAN Agency. The overall goal of the governance change is to transform the existing Pacific Surfliner intercity rail service into a service under local control that is more responsive to local needs, issues and consumer desires.

The LOSSAN Agency receives funding from Caltrans DRMT for administration and management of the Pacific Surfliner train service. The train equipment used in the LOSSAN Rail Corridor service is owned by the State of California and the train service is operated by the National Railroad Passenger Corporation (Amtrak) under contract to the LOSSAN Agency. The railroad track is owned by Burlington Northern and Santa Fe Railway (BNSF), Union Pacific Railroad Company (UPRR), Metrolink, and North County Transit District. The LOSSAN Agency is staffed by the Orange County Transportation Authority (OCTA) under a management services agreement.

**2. Summary of Significant Accounting Policies**

The accounting policies of the LOSSAN Agency are in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

*(a) Basis of Accounting and Presentation*

The basic financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues, consisting primarily of funding from Caltrans DRMT, are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Revenues received from Caltrans DRMT are received in advance and used by the LOSSAN Agency to fund train operations provided by Amtrak.

The financial statements are reported using an Enterprise fund and full accrual method of accounting. The LOSSAN Agency has the authority to set and modify fares as the governing body managing the Pacific

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Surfliner intercity passenger rail service. As the managing agency of the service, the LOSSAN Agency also has control over train schedules and corridor-wide improvements that will maximize revenue and ridership. Due to this unique responsibility provided to the LOSSAN Agency through SB1225, the LOSSAN Agency reports the financial statements as an Enterprise Fund.

*(b) Proprietary Accounting and Financial Reporting*

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. Operating revenue includes assessment fees charged to Amtrak in the performance of the train operations, and fare revenue subsidies provided by the Santa Barbara County Association of Governments (SBCAG) associated with retimed train service from Ventura to Santa Barbara and Goleta. The primary funding source of the LOSSAN Agency is funding received by the Caltrans DRMT for both train operations and marketing and administration. This revenue is considered nonoperating revenue. Operating expenses for the LOSSAN Agency include the cost of train operations and bus feeder services, charges for marketing and administration, and other operating expenses. All expenses not meeting this definition are reported as nonoperating expenses.

*(c) Cash and Investments*

The LOSSAN Agency currently does not have a written investment policy. The treasurer of the managing agency, the Orange County Transportation Authority (OCTA), serves as the Agency's treasurer. The treasurer serves as the depository of funds and has custody of funds for the Agency.

The LOSSAN Agency's cash and investments consist of an overnight repurchase sweep account. The LOSSAN Agency did not have any other investments as of June 30, 2019. See Note 3.

*(d) Cash and Cash Equivalents*

The LOSSAN Agency considers all short-term investments with an initial maturity of three months or less to be cash equivalents.

*(e) Restricted Cash and Cash Equivalents*

Restricted cash includes grant funds received from the California Office of Emergency Services (CalOES) to be used for security and safety enhancements of rail facilities. It also includes State Rail Assistance (SRA) grant funds to be used for various rail service improvements throughout the rail corridor.

The LOSSAN Agency has setup an Operating Reserve Fund in accordance with the ITA. Funds provided by the state for train operations which exceed the actual billings, are considered surplus funds and can be used to fund future variability in operating costs that may vary from the budgeted amount. The maximum level of funds allowed to be retained is 12.5% of the state subsidy level in the most recently completed Amtrak contract year. As of June 30, 2019 the Operating Reserve Fund balance is \$0. During fiscal year 2019, the operating reserve fund was used to cover unanticipated Amtrak operating expenses.

*(f) Unearned Revenue*

The LOSSAN Agency receives advance funding from the State to pay for Amtrak provided train operations and bus feeder services, as well as administrative and marketing services. The LOSSAN Agency recognizes

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revenues in the period in which the related expenses are incurred. Any funds received in advance or amounts due from the State that are not used to offset current expenses are classified as unearned revenue. Unearned revenue also includes various grant funding received that has not been used to offset current expenses.

*(g) Net Position*

Net position represents the residual interest in the LOSSAN Agency's assets after liabilities are deducted. The statement of net position reports total net position. This amount reported is considered unrestricted net position since it is accessible for general use and is not invested in capital assets or restricted by third parties, constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, it is the LOSSAN Agency's policy to use restricted resources first and then unrestricted resources as needed and in accordance with the ITA.

*(h) Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures during the reporting period. As such, actual results could differ from those estimates.

**3. Cash and Cash Equivalents**

*(a) Cash and Investments*

Beginning in September 2018, the LOSSAN Agency entered into a new fixed interest investment repurchase agreement with Bank of the West, in which the daily balance of its checking account is transferred into an overnight sweep account. Under the repurchase agreement, the LOSSAN Agency earns a fixed 1.00% interest rate on the daily amount transferred to the sweep account, regardless of any fluctuation in the market price of the underlying securities purchased by the bank. The funds are collateralized by a U.S. Treasury note. Each business day, the bank automatically transfers the balance in the sweep account and interest earned back into the LOSSAN Agency bank deposit account.

The repurchase agreement is measured at cost, based upon the deposit account value that is transferred to the sweep account.

*(b) Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. California Government Code Section 53652 requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the agency's deposits.

Under the terms of the repurchase agreement with the bank, amounts transferred into the overnight sweep account for investment by the bank is not a deposit and is not insured by the Federal Deposit Insurance Corporation or guaranteed by the government. The LOSSAN Agency retains a security interest in the



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amount of collateral placed into the sweep account, which is in a U.S. Treasury Note. Pursuant to the Master Repurchase Agreement the amounts in the overnight repurchase agreement sweep account are collateralized 102 percent with the collateral held by the bank's custodian.

If the bank were to fail, the LOSSAN Agency would be treated as either the owner of the securities or as a secured creditor of the bank. If the aggregate market value of the LOSSAN Agency's security were to decline, the LOSSAN Agency would become an unsecured creditor of the Bank to the extent that the aggregate market value becomes less than the account balance and accrued interest.

Upon completion of the daily sweep, funds transferred back into the LOSSAN Agency checking deposit account on a daily basis are considered deposits and the amounts are covered by federal depository insurance or were collateralized by the pledging financial institution as required by Section 53652 of the California Government Code. Such collateral is held by the pledging financial institution's trust department or agent in the Agency's name.

**4. Prepaid Expense**

During fiscal year 2019, the LOSSAN Agency purchased various marketing advertising that will be utilized in both fiscal years 2019 and 2020. Prepaid expenses include \$72,500 in marketing advertising that will be amortized during fiscal year 2020.

**5. Due From Other Governments**

Due from other governments consists of amounts due to the LOSSAN Agency from SBCAG for train operating costs and fare revenue subsidies. It also includes amounts due from Caltrans DRMT for grant revenue for on-time performance and track maintenance, the reimbursement of costs relating to the rebranding of twelve charger locomotives, grant revenue for transit transfer program reimbursements, as well as administration revenue for station and layover facility enhancements.

Due from SBCAG grant reimbursements	\$	1,853,785
Due from Caltrans DRMT grant reimbursements		2,640,586
Due from Caltrans DRMT for train operations		436,835
Due from Caltrans DRMT for administration		79,459
Total	<u>\$</u>	<u>5,010,665</u>

**6. Due To Other Governments**

Due to other governments consists of amounts due to the North County Transit District (NCTD) for train on time performance and track maintenance, amounts due to OCTA for administrative services and to various other government agencies for transit services provided under the transit transfer program. The table below provides detail of due to other governments as of June 30, 2019.

Due to NCTD for performance and maintenance	\$	2,299,000
Due to OCTA for administrative services		661,645
Due to transit agencies for transit transfer program		51,618
Total	<u>\$</u>	<u>3,012,263</u>

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**7. Unearned Revenue**

Unearned revenue consists of amounts received from the State for fiscal year 2019 operating, administrative and marketing funding, in advance of incurring the expenses. It also includes unearned revenues from prior-year State operating and marketing funding received. It includes grant revenue from the California Office of Emergency Services for facility security and safety enhancements, and State Rail Assistance grant revenues. The table below shows detail of unearned revenue as of June 30, 2019.

Unearned advanced train operating funds	\$	3,755,046
Unearned grant revenue		6,827,166
Unearned advanced marketing funds		1,494,696
Unearned advance administrative funds		1,483,830
Total	\$	13,560,738

**8. Contracted Services for Train Operations**

The LOSSAN Agency negotiates and enters into annual agreements with Amtrak to provide Pacific Surfliner intercity passenger rail service and connecting bus feeder services for the LOSSAN Rail Corridor. An agreement was entered into which covers the time period between October 1, 2017 through September 30, 2019. Following the end of the term, the agreement allows the continuation of service up to six months or until a new annual agreement is executed. A new agreement is expected to be entered into in FY 2019-20 that covers October 1, 2019 through September 30, 2020.

Payment to Amtrak by the LOSSAN Agency is based on a projected amount mutually agreed to by both parties as part of the agreement. This projected amount is net of related fare revenues. The actual amounts are reconciled and provided to the LOSSAN Agency on a monthly basis. Any surplus or deficits are applied to the following months invoice. The actual net expense for train operations as of June 30, 2019 is \$32,492,636 net of adjustments due to year end reconciliation with Amtrak from results of operations.

Beginning April 1, 2018, Amtrak implemented peak period hour rail service between Ventura and Santa Barbara counties. The LOSSAN Agency entered into a cost sharing agreement with SBCAG to offset costs associated with the service. SBCAG funds a portion of the operating costs to run the service, and the State of California funds the other half of the costs. In addition, SBCAG pays the LOSSAN Agency for any fare discounts that are provided to customers for the service.

Also included in contracted services for train operations is a one-time payment for the painting and branding of State-owned locomotives.

**9. Contributions for Railroad Improvements**

Contributions for railroad improvements includes an expense for funds provided to Union Pacific Railroad for railroad track improvements related to the implementation of positive train control on the Santa Barbara subdivision. The improvements include track side signal and communications, double track and bridge improvements already completed by the owner of the track, the Union Pacific Railroad. The LOSSAN Agency's share of the cost is estimated to be \$8,500,000. The LOSSAN Agency received funds from the State for this one-time expense during fiscal year 2019.

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**10. Charges for Marketing and Administration**

Effective November 21, 2013, the Agency entered into an agreement with OCTA to provide administrative support services through the initial term of the ITA (June 30, 2018). In accordance with the agreement, OCTA is reimbursed by the Agency for administrative staff time including an agreed upon overhead rate. A new administrative services agreement with OCTA was entered into on June 25, 2018, effective July 1, 2018 for a three-year term through June 30, 2021. The agreement may be extended by mutual agreement for two additional three-year terms through June 30, 2027. Charges from OCTA for these services are highlighted in the table below.

Administrative Services	\$ 2,747,177
Marketing Expenses	2,760,356
Professional Services	110,599
Insurance	57,349
Legal Services	24,714
Travel	23,964
Audit Services	22,079
Other Business Expenses	10,568
<b>Total</b>	<b>\$ 5,756,806</b>

**11. State Funding for Train Operations and Administrative and Marketing**

Effective July 1, 2015, the LOSSAN Agency and the State of California Department of Transportation (Caltrans) entered into an interagency transfer agreement (ITA), which transferred the administrative responsibility for the operation of rail services along the LOSSAN corridor. The ITA carried an initial three-year term through June 30, 2018. As part of the ITA, the LOSSAN Agency entered into a Master Fund Transfer Agreement (MFTA) with the State. The MFTA provides for State funding, appropriated by the State Budget Act and allocated to the LOSSAN Agency in accordance with the provisions of the MFTA and ITA, for the LOSSAN corridor rail service. In accordance with the MFTA and ITA provisions, funding is contributed towards actual marketing and administrative costs, as well as train operations.

On June 30, 2018, the LOSSAN Agency and Caltrans entered into the first amended ITA, with a term commencing on July 1, 2018 and ceasing on the third anniversary date, June 30, 2021, with two four-year options for renewal.

During fiscal year 2019, Caltrans provided the LOSSAN Agency additional funding for one-time costs associated with the rebranding of Charger locomotives and for host railroad costs associated with railroad improvements needed for the implementation of positive train control.

**12. Grants for Transit Programs**

*(a) Transit and Intercity Rail Capital Program (TIRCP)*

Beginning in June 2016, the LOSSAN Agency initiated a Pacific Surfliner Transit Transfer Program (Program) on a one-year pilot basis, and has since continued the program. The Program allows Pacific Surfliner passengers to transfer to connecting transit services by presenting a valid Pacific Surfliner ticket. The program is funded by a Transit and Intercity Rail Capital Program (TIRCP) grant awarded by the California State Transportation Agency. The California Transportation Commission (CTC) approved the

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allocation of \$1,675,000 for this pilot program. As of June 30, 2019, the total receivable is \$140,000 and is included as part of due from other governments. The funding for the program will expire December 31, 2019, however the California Department of Transportation has approved additional operations funding to continue the program through June 30, 2020.

During fiscal year 2016, the LOSSAN Agency was awarded \$82 million in TIRCP grant funds to advance several improvement projects on the LOSSAN rail corridor, including the replacement of five railway bridges, constructing additional double track, station and safety enhancements, signal and switch upgrades, planning studies to improve coordination between all trains operating on the corridor, as well as funding for leasing rail equipment. For many of the projects, other transportation agencies will serve as the lead agency for the projects and will receive the grant funding directly. The LOSSAN Agency will be the lead agency for the planning studies and the leasing of rail equipment. The LOSSAN Agency is currently not leasing any rail equipment. The LOSSAN Agency began a corridor wide optimization study in 2019, and has incurred approximately \$160,000 of expenses related to this project. A matching receivable is recorded in due from other governments for the State grant funding for this project.

During fiscal year 2018, the LOSSAN Agency was awarded \$188 million in TIRCP grant funds to advance capital improvements and planning studies on both the northern and southern ends of the LOSSAN rail corridor. The funding is provided through SB 1 and the proceeds from the Cap and Trade program. On the northern end of the corridor, the program of projects includes construction of additional double track and siding extensions, station and layover facility enhancements, incentives for improved on-time performance, and upgrades to signal systems and switches. On the southern end of the corridor, the program of projects includes signal improvements, creating a more robust capital maintenance program and installing new fencing in San Diego County. It is anticipated that some of the projects will begin in fiscal year 2020. It is also anticipated that various other transportation agencies will serve as the lead for these projects and will receive grant funding directly. For fiscal year 2019, the LOSSAN Agency has recorded approximately \$2.3 million in expenses related to an agreement with the NCTD for on-time performance and track maintenance. A matching receivable is recorded in due from other governments for the State grant funding for this project.

*(b) California Office of Emergency Services (CalOES)*

The LOSSAN Agency was awarded grants from CalOES for security and safety enhancements for rail facilities in prior fiscal years totaling \$7,171,080. To date, \$3,025,079 has been recognized as revenue to offset program expenses, including \$1,070,468 in fiscal year 2019, leaving a balance of \$4,146,001 in unearned revenue.

*(c) State Rail Assistance (SRA)*

During fiscal year 2018 and 2019, the LOSSAN Agency was awarded \$2,723,000 of SRA funds, of which \$2,008,625 was received during fiscal year 2018 and \$714,375 was received during fiscal year 2019. Funding for this program comes from Senate Bill 1 (SB 1), the Road Repair and Accountability Act of 2017. The program funds will be used to improve rail service along the LOSSAN corridor, and includes projects for the San Luis Obispo platform repair, replacement of station siding, update of the LOSSAN Corridor strategic plan, corridor optimization software, station safety improvements and an interregional connectivity improvement project. During fiscal year 2019, \$41,835 of SRA revenue was recognized to offset project expenses, leaving a balance of \$2,681,165 in unearned revenue.

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In March of 2019, CalSTA awarded the LOSSAN Agency \$3,917,074 of additional SRA funds to complete station safety, security and facility improvement projects. It is anticipated that some of the projects will begin in fiscal year 2020. In May 2019, CalSTA awarded the LOSSAN Agency \$718,750 in competitive SRA funds for a corridor integrated signage and wayfinding program. It is anticipated that this project will begin in fiscal year 2020 and be completed within two years.

*(d) State Transportation Improvement Program (STIP)*

During fiscal year 2019, the California Transportation Commission approved \$3,500,000 in State Transportation Improvement Program (STIP) funds to advance the Central Coast Layover Facility Expansion project through project approval and environmental documents. The funding will be used to identify a preferred location and configuration, design and environmentally clear a new or expanded layover and light maintenance facility for the Pacific Surfliner intercity passenger rail service. Funds for this project are provided on a reimbursement basis. Work has started for this project during fiscal year 2019 and is expected to continue through fiscal year 2020.

**13. Commitments and Contingencies**

*Commitments*

The LOSSAN Agency has various outstanding contracts. Total outstanding purchase commitments at June 30, 2019 were \$18,230,719. The most significant is with Amtrak at \$12,326,757 which includes \$10,237,666 for train operations and bus feeder services and \$2,089,091 for various facility safety and security improvements. Other purchase commitments with various vendors total \$3,295,426 and are for professional services for a corridor optimization study, San Diego layover facility study, and Central Coast layover facility environmental document. Purchase commitments for professional marketing services total \$1,714,586, while administrative and other professional services total \$190,292. This amount does not include a value for the administrative services agreement with OCTA, as this is an actual cost based reimbursable agreement. Cooperative agreements in place with other transit agencies for the Transit Transfer Program total \$424,178 as of June 30, 2019. The Transit Transfer Program agreements are also on a reimbursement basis, where the LOSSAN Agency is only billed when passengers use the program. Finally, purchase commitments for rail planning & scheduling software, and database maintenance services total \$279,480.

*Contingencies*

The LOSSAN Agency is currently disputing marketing related additive charges under the operating agreement with Amtrak. The dispute involves Amtrak's compliance with the Passenger Rail Investment and Improvement Act of 2019 (PRIIA 209) policy's definition of activities associated with the marketing additive charge to the LOSSAN Agency. The LOSSAN Agency's position is that Amtrak removed certain marketing services without amending the policy or mutually agreeing to a reduction of the marketing additive charge proportional to the services being provided. For fiscal year 2019, the amount being disputed is approximately \$753,000. An adjustment to expenses and liability has been recorded in the financial statements.

*Agreement with Union Pacific*

As of fiscal year-end 2019, the LOSSAN Agency was actively negotiating an agreement with the Union Pacific Railroad to provide reimbursement for improvements and enhancements to the Santa Barbara rail

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subdivision required for the implementation of positive train control. The LOSSAN Agency anticipates paying the Union Pacific Railroad for improvements the host railroad owner has completed. This amount is estimated to be \$8,500,000, which is recorded as an expense and liability in the financial statements. The State has provided the funding for this one-time payment to the Union Pacific Railroad during fiscal year 2019, which has been recorded as an offsetting revenue in the financial statements.

**14. Risk Management**

As part of the annual operating agreement with Amtrak, Amtrak is responsible to pay any settlement or final judgment of claims against the LOSSAN Agency arising directly from Amtrak's operations of the rail passenger and bus feeder service. The LOSSAN Agency pays an allocated share of the cost of Amtrak's master insurance policies as they relate to the services being provided by Amtrak under contract. The LOSSAN Agency also purchases general liability and excess liability insurance with an aggregate limit of \$4,000,000, errors and omissions public officials' liability of \$1,000,000 and crime liability of \$2,000,000. There have been no claims or settlements that have exceeded insurance coverages within the past three fiscal years.

**15. Concentration of Funding**

Funding for the administration of the LOSSAN Agency as well as funding for marketing, train and bus feeder operations is provided by Caltrans DRMT, and is subject to annual budget appropriation by the California State Legislature (Legislature) and programming by the California Transportation Commission (CTC). This represents 99% of total LOSSAN Agency revenue. There is no guaranty that funding will actually be appropriated by the Legislature and to the extent required, programmed by the CTC.